

Message Text

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SUBJ: FINANCIAL DEVELOPMENTS

1. SUMMARY. ACCORDING TO BANKING SOURCES, URUGUAY'S CENTRAL BANK HAS INITIATED NEGOTIATIONS WITH THIRTEEN FOREIGN BANKS, SIX OF THEM AMERICAN, FOR A GOLD LOAN OF ABOUT \$130 MILLION. THIS WILL BE USED IN CONJUNCTION WITH EXPECTED IMF/IBRD FUNDS TO SUPPORT URUGUAY'S ECONOMIC REFORM PROGRAM AND COVER ANTICIPATED BALANCE OF PAYMENT DEFICITS FOR 1974/75. IN ANOTHER DEVELOPMENT SOUTH AFRICA HAS DEPOSITED \$20 MILLION WITH THE CENTRAL BANK HERE. MEANWHILE IT HAS BEEN ANNOUNCED THAT THE PRESIDENT OF THE CENTRAL BANK WILL BE REPLACED BY MINISTER OF ECONOMY VEGH VILLEGAS' PRINCIPAL ASSISTANT. END SUMMARY.

2. THIRTEEN FOREIGN COMMERCIAL BANKS ORGANIZED IN TWO GROUPS- AMERICAN AND EUROPEAN--HAVE BEEN ASKED TO LEND \$130 MILLION AGAINST A PLEDGE OF 960,000 OUNCES OF GOLD HELD AT THE UNION BANK OF SWITZERLAND. URUGAY IS ASKING FOR 80 PERCENT OF THE CURRENT FREE MARKET VALUE--TEKEN TO BE \$180 PER OUNCE. THE TERM OF THE LOAN WILL BE FOR SEVEN YEARS WITH A TWO YEAR GRACE PERIOD. THE INTEEST RATE WOULD FLOAT AT 1 1/2 PERCENT OVER THE
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LONDON INTERBANK RATE. THE CENTRAL BANK WANTS TO HAVE 50 PERCENT

OF THE LOAN AVAILABLE BEFORE THE YEAREND.

3. THE BANKERS INVOLVED INCLUDE ALL FOREIGN BANKS HAVING OPERATIONS IN URUGUAY, PLUS OTHERS WHICH TRADITIONALLY HAVE HAD CREDIT LINES WITH THE CENTRAL BANK HERE, SUCH AS MANUFACTURERS HANOVER. BANKERS ARE SAID TO LOOK WITH FAVOR ON SUCH A LOAN, ALTHOUGH THE TERMS ARE DESCRIBED AS MARGINAL IN TODAY'S MARKET. WE ARE ALSO TOLD THE AMERICAN BANKS IN PARTICULAR WOULD WANT TO SEE THE RESULTS OF THE FORTHCOMING NEGOTIATIONS ON AN IMF STANDBY.

4. ON NOV 25 THE RESERVE BANK OF SOUTH AFRICA MADE A LOAN TO URUGUAY IN THE FORM OF A FIXED DEPOSIT WITH THE CENTRAL BANK OF \$20 MILLION FOR TWO YEARS. ANNUAL INTEREST WILL BE 10 1/16 PERCENT ADJUSTED SEMI-ANNUALLY IN ACCORDANCE WITH EURODOLLAR DEPOSIT RATES. IT WAS ALSO ANNOUNCED AN ECONOMIC MISSION WILL BE COMING FROM SOUTH AFRICA IN JANUARY WITH THE OBJECTIVE OF INCREASING TRADE BETWEEN THE TWO COUNTRIES. ALTHOUGH A SOUTH AFRICAN REPRESENTATIVE HERE SAID THESE STEPS WERE NO MORE THAN THE REFLECTION OF EXISTING GOOD RELATIONS BETWEEN THE TWO COUNTRIES AND AN EXPRESSION OF CONFIDENCE IN URUGUAY, IT IS WIDELY AGREED THAT POLITICAL MOTIVATIONS ARE RESPONSIBLE FOR THIS HELP FROM AN UNEXPECTED QUARTER.

5. IT WAS RECENTLY ANNOUNCED THAT CR. CARLOS RICCI, PRESIDENT OF THE CENTRAL BANK, WILL RESIGN BY THE END OF THE YEAR AND BE REPLACED BY JOSE GIL DIAZ. GIL IS PRESENTLY SUB-SECRETARY OF THE MINISTRY OF ECONOMY AND FINANCE, UNDER MINISTER VEGH VILLEGAS, AND IS A TRAINED ECONOMIST WHO ENJOYS THE MINISTER'S CONFIDENCE. AS SUCH HIS SHIFT CAN BE EXPECTED TO STRENGTHEN VEGH'S CONTROL OVER THE BANKING SECTOR, ALTHOUGH GIL HAS NO PREVIOUS BANKING EXPERIENCE. IT HAS NOT BEEN DECIDED YET WHO WILL TAKE OVER THE SUB-SECRETARY'S POSITION.

6. COMMENT: ALTOGETHER THESE DEVELOPMENTS INDICATE THAT THE GOV IS MOVING DECISIVELY TO RESOLVE URUGUAY'S CRITICAL FINANCIAL SITUATION. IF THE NEGOTIATIONS WITH THE IMF/IBRD ARE SUCCESSFUL AND THE GOLD LOAN IS ARRANGED, THE GOVERNMENT SHOULD HAVE ABOUT \$300 MILLION AVAILABLE TO COVER DEFICITS OF APPROXIMATELY THE SAME MAGNITUDE DURING THIS YEAR AND NEXT. THE REPLACEMENT OF RICCI AT THE CENTRAL BANK WILL PROVIDE LIMITED OFFICIAL USE

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